

BUDGET LETTER

SUBJECT: 2003-04 PERSONAL SERVICES REDUCTIONS	NUMBER: 03-06
REFERENCES: APRIL 1, 2003 JOINT FINANCE/DPA LETTER	DATE ISSUED: April 4, 2003
	SUPERSEDES:

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Agency Secretaries and Department Directors received a joint Department of Finance (Finance) and Department of Personnel Administration (DPA) [letter](#) dated April 1, 2003, instructing departments to prepare reduction plans and associated layoff plans that would reduce their personal services budgets by at least 10 percent, starting 2003-04 and ongoing. This Budget Letter contains guidelines and a form (Attachment I) for agencies and departments to use in preparing the reduction plans. For instructions on how to prepare the layoff plan, please contact Jerri Judd of DPA at (916) 324-0439.

Reduction and layoff plans must be prepared for all departments, except for the Legislature, Judicial, University of California, Hastings College of Law, and California State University.

All Agency¹ Secretaries are hereby directed to submit reduction plans (Attachment I) to Finance and associated layoff plans to both Finance and DPA, no later than **April 22, 2003**.

Departmental budgets **will not** be augmented for the General Salary Increases that are scheduled to take effect on July 1, 2003. Departments must begin to develop a strategy, in addition to developing reduction and layoff plans, to address budget shortfalls that will result if employee compensation concessions or layoffs are not implemented by July 1, 2003.

In preparing the reduction plans, the following guidelines must be followed:

10 Percent Calculation

- The reduction plan must make a 10 percent reduction to the 2003-04 Governor's Budget, Summary By Object, Totals, Personal Services, dollar amount, as adjusted for approved Finance Letters. In addition, for purposes of developing the reduction plan, departments may assume they will receive a "credit" equal to 5 percent of appointed position salary, management designated position salary, and salaries for confidential positions that are unique to the department.
- The reduction plan must contain a fund split between General Fund and all other funds combined that mirrors the 2003-04 Governor's Budget, as adjusted for approved Finance Letters.

¹ From here on, "Agency" refers to either an Agency Secretary or a department that does not report to an Agency Secretary.

Which Positions Can Be Included in the Reduction Plan?

- The reduction plans cannot contain any position already identified for elimination in the 2003-04 Governor's Budget or an approved Finance Letter. In addition, the reduction plans cannot include any position included in a legislative action that substituted for a Governor's Budget proposal.
- A priority must be made to include positions that will not require legislative or regulatory changes or substantially impact sensitive programs.
- A priority should be placed on eliminating positions that would produce immediate savings, such as vacant positions, temporary employees, and student assistants.

How Should Positions be Costed?

- Estimated savings should be based on positions being eliminated effective July 1, 2003.
- The cost of positions must include only salary, benefits, and an adjustment for salary savings.
- To reduce the number of positions that departments will have to eliminate, the cost of positions should include the General Salary Increases that are scheduled to take effect on July 1, 2003 (generally 5 percent).
- The cost of benefits should not include any non-budgeted amounts such as projected health benefit premium increases.
- Savings projections should be based on the first salary step for affected positions unless the department can demonstrate that the number of positions being eliminated will include positions already funded at a higher level.

Additional Issues

- The associated layoff plan must include all positions identified in the reduction plan for elimination that are not currently vacant.
- The reduction plans cannot include operating expenses and equipment costs or local assistance costs.
- All position reductions will be permanent.
- Department Directors should be prepared to address and defend why they selected the particular positions and the expected programmatic impact if these positions are eliminated.
- Approved plans will be implemented through a new control section that will allow the Director of Finance to adjust departmental appropriations, as appropriate.

If you have any questions, please contact your Finance budget analyst.



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